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INSIDE
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A 2007 Fidelity study of Fidelity record kept 401(k) retirement plans found that 16% of participants under the age of 30 had no holdings in stocks.*

Back to Basics: Understanding Investment Principles Is a Key Part of Financial Success

Living the future you've dreamed about often comes down to how well you save and manage your money over the years. The good news is you don't have to be an investment expert to make good decisions, but you do need to know how to choose investments that are right for your individual situation.

Understanding these topics can help you achieve your investment goals:

1. Investment types
2. Asset allocation
3. Diversification

1. Investment types

Most investments available to the general public fit into one of three general categories, or asset classes: stocks, bonds, and short-term investments.

Stocks, or equities, represent ownership in the company that issued it. Although past performance is no guarantee of future results, stocks historically have produced greater returns and kept pace with inflation better than other types of investments over long time periods. But this greater potential reward comes with greater risk—particularly over short time periods, when stock prices can go up and down quite a bit. This means your investment could be worth less than you paid for it when you decide to sell it.

Bonds are essentially a loan to the issuer, which is generally a company or a state or local government. Also known as fixed-income investments, bonds often provide regular interest payments. There is a wide variety in the quality of bonds available. Generally, investment-grade bonds are less risky than stocks. In fact, some bonds may act as a cushion against the unpredictable ups and downs of the stock market.

However, high-yield bonds, sometimes called junk bonds, can be both risky and volatile. In general, bond prices rise when interest rates fall, and vice versa. This effect is usually more pronounced for longer-term securities.

Short-term investments, or cash-equivalents, generally seek to preserve capital. Examples include Treasury bills, money market funds,[1] and certificates of deposit. Compared with stocks and bonds, short-term investments historically have had lower rates of return; however, they usually carry much less risk.

(continued)

*Building Futures VIII report, Fidelity Investments, 2007.

[1] *An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although money market funds seek to preserve the value of your investment at $1 per share, it is possible to lose money by investing in these funds.*

(Back to Basics: continued)

2. Asset allocation

Asset allocation is the strategy of including different investment types in your portfolio. It's an approach designed to benefit from the fact that investment types often perform differently at any given time. For example, if your stock investments aren't growing much, your bond investments may provide some interest income.

Your asset allocation, or investment mix, should match your 1) unique financial needs, 2) comfort level with investment risk, and 3) time frame for investing.

Generally, if you've got many years until retirement and can tolerate the risk, you may want to invest more money in stock investments, to pursue higher potential returns. Adding more conservative investments to your portfolio may help offset some ups and downs of your stock investments. So as you get closer to your goal, you may want to shift more money into conservative bond or short-term investments.

If you're not comfortable building your own asset allocation, there are many ways to get professional help. One is to choose a lifecycle or target date retirement fund (if offered by your plan) that offers an asset allocation based on a target retirement year. These funds automatically adjust to a more conservative asset allocation as the target retirement year approaches. Another choice is to consider a managed account.

3. Diversification

If you create your own investment mix, the next step is to diversify your savings within the stock, bond, and short-term investment categories. Diversification means investing in different types of companies, industries, countries, and business types.

This strategy has two important advantages. One is helping to reduce risk in your portfolio. The other is improving the odds that your savings will benefit from a greater number of economic or market developments. For example, if you invest in both domestic and foreign stock funds, you're exposing your savings to opportunities in different economies. Similarly, because companies of different sizes perform well at different times, it may make sense to diversify into small, medium, and large company stocks.[2]

Please remember that neither diversification nor asset allocation ensures a profit or guarantees against loss.

Maintaining your mix

Once you've built your asset allocation, make sure to monitor your portfolio periodically. If the percentage of savings you put into stocks, bonds, and short-term investments strays beyond your targets, it may be time to rebalance. You can add new investment dollars to asset classes that have fallen below the amount you targeted, or sell some of the investments in categories that exceed your target allocation and use the net proceeds to invest in your underweighted asset class. When selling securities to rebalance, keep in mind there may be tax consequences if they are sold in a regular taxable account.

As with any skill, investing involves a learning curve. But, it's not as difficult as you might think. Armed with basic knowledge of different investment types and how to mix them for your needs, you're already taking positive steps toward a more secure retirement.▲

[2]Foreign investments, especially those in emerging markets, involve greater risk and may offer greater potential returns than U.S. investments. This risk includes political and economic uncertainties of foreign countries, as well as the risk of currency fluctuation.

Investments in smaller companies may involve greater risks than those in larger, more well-known companies.

What Young Adults Need to Know About Money

If you're just getting started on your financial independence, consider these potential strategies that can help you build a healthy financial future:

Stick to a budget

Track your expenses for a month, using a notebook, spreadsheet, or whatever system works for you. After reviewing the results, you may want to redirect some of your money. For example, if buying lunch every workday costs $150 a month, you may decide to bring lunch from home and use the savings toward graduate school or your first home. Staying on top of income and expenses also can help you avoid common financial mistakes, from bounced check fees to late credit card payments that can trigger sky-high interest rates.

Ramp up your savings

Get into the habit of setting aside some income on a regular basis. In addition to paying for big items like a car or a down payment for a house, it may help protect you in an emergency—so you don't have to take on debt if you spend some time between jobs, or if your car needs a new transmission. Try to save at least three months' worth of expenses. Setting up automatic deposits from a checking account to a savings account or a money market fund can help you adhere to a regular savings schedule.

"For most young people, eliminating credit card is the best investment they can make."
—Russell Wild, Financial Advisor, Allentown, Pa.

Beware of debt

Credit cards are essential for things like online purchases and travel, but they can ruin a budget if not used cautiously. Pay off the balance every month to avoid credit card interest. If you do carry a balance, always pay at least the minimum on time to avoid steep penalties. Don't stop at the minimum payment, though. Paying down credit card debt is one of the best things you can do with extra funds—it's right up there with building emergency savings.

Start investing

When you have a budget in hand, an emergency fund in the bank, and balance-free credit cards, it's time to invest. Retirement is a long way off when you're starting your career—and that's the reason to start investing for retirement as soon as possible. The investment interest you earn today may have 40 years or longer to earn interest of its own, a process known as compounding.

As you build your career and your savings, there are many financial lessons to learn along the way. But going out into the world well informed can give you a leg up.

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

Understand the Basics of Minimum Required Distributions

Generally, when you reach age 70½, you're required to take money out of your retirement savings plan. It's important to know how these withdrawals work, in order to save on taxes and avoid penalties. Here are some key facts you should know.

Minimum required distribution (MRD) — This is the minimum amount of money the Internal Revenue Service requires you to withdraw from a tax-deferred retirement account each year, including your workplace savings plan, as well as traditional IRAs.

Multiple accounts — If you have more than one employer-sponsored retirement plan account you'll need to meet your MRD requirements separately for each account.

Potential penalties — The penalty for missing all or part of an MRD can be stiff: A 50% tax on the portion of your required distribution that you failed to take may be imposed, on top of the ordinary income tax due on that amount.

Start dates—For traditional IRAs, you must begin taking MRDs by April 1 of the year following the year in which you turn 70½. In a workplace savings plan, if you continue to work after age 70½ and you are not a 5% or more owner of the employer who sponsored the retirement plan, your plan may allow you to delay the MRD payment until April 1 of the calendar year following the one in which you retire. Please note: If you take your first MRD between January 1 and April 1 of the year after you turn age 70½ or retire, you're still required to take your second MRD by December 31 of the same year. All distributions after the first distribution must be made annually by December 31. MRD rules don't apply to Roth IRAs. Please know that different MRD rules apply if your retirement or IRA account is a beneficiary account.

Fidelity does not provide legal or tax advice and the information provided above is general in nature and should not be considered legal or tax advice. Consult with an attorney or tax professional regarding your specific legal or tax situation.

Need Help?

If you need help planning for your financial future, contact Fidelity at **800-343-0860,** through your employer's toll-free number, or online at **www.fidelity.com/atwork.**

Keep in mind that investing involves risk. The value of your investment will fluctuate over time and you may gain or lose money.

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